The Free Market

"If you don't create a free market, a black market will emerge"

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ECONOMIC CRISIS

› Declaration: Governments made the financial crisis; let us not make it worse

Representatives of economic policy organizations throughout Europe contend that the current financial crisis stems from government's defective policy and urges European governments not to adopt decisions that would aggravate the situation. On the eve of the European leaders' summit, held in emergency to debate the governments' moves to respond to the financial disarray, 42 European organisations released a declaration containing recommendations on how to deal with the worst financial crisis since the 1930s.

The LFMI-initiated declaration states that the basic cause of the global financial problem was that the U.S. government, along with other governments, had engaged in excessive credit expansion and pressured banks to make loans – particularly home loans – to unqualified buyers.

The authors of the document believe that responding to the credit crunch by adding more liquidity in the market is a short-term fix that will only help banks that were mismanaged, and will fuel inflation. They also stressed that governments should facilitate, and not hinder, the process of the market determining prices that realistically reflect supply and demand.

European think-tanks recommended the authorities that when hard times come, governments should share the burden with businesses and consumers and not try to insulate themselves from the harm they have caused. Finally, they highlighted, governments should refrain from rescuing particular businesses or business projects. "The cost of saving businesses that failed will fall on the shoulders of others, through increased taxes, inflation, or capital misallocation," - says the declaration.

According to LFMI's President Remigijus Šimašius, this voice of various institutions from all over Europe is very important. "Today we hear more often that unregulated capitalism has undergone a crisis and so it must be regulated more rigidly. But the reality is quite opposite. This economic crisis is the outcome of government's attempts to revitalise the economy by regularly "pouring" money into it, which has led to artificial booms, price bubbles, inflation, and incorrect investment decisions, and which has encouraged banks to extend loans to those individuals who would have been considered unqualified under normal circumstances. Even worse, instead of letting those businesses that followed this governmental policy and failed to go bankrupt, authorities are trying to apply the cure which is the cause of the disease,"- summarised Mr. Šimašius.

He expressed a belief that the Lithuanian government will resist the panicking and will adopt only well-considered decisions, instead of repeating the recent mistakes of most other governments.

Politicians have failed to keep their heads cool

Lithuania's leading daily Lietuvos Rytas *interviewed LFMI's President Remigijus Šimašius about the roots of the current global financial crisis, its effects on future economic policies and the most rational moves to ameliorate the situation.*

News about the end of capitalism and the sunset of the West is too early. Instead of passively listening to such talks in dismay or caulking, in panic, the economy's holes with public money, we must not give in to fear and start saving.

This is the recipe that economic analyst Remigijus Šimašius suggests to Lithuanian politicians.

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In the face of this global crisis, Western world is announcing more loudly about the burial of capitalism. What is this – fear, a crisis-scale indicator or a new truth?

I agree this is not temporary disarray. Likewise, it's not just temporary disarray which will affect financial institutions alone (although a week ago quite a few Lithuanian analysts contended to the contrary). But the popular explanation that it's collapsing unregulated capitalism that is to be blamed for the current crisis is absolutely incorrect. It's not unregulated, but regulated capitalism – or regulating capitalism via the basic regulatory measure, manipulation in money supply – that is going bankrupt today.

At a closer look, it's obvious that the crisis has been spawned by a clear-cut, purposeful, active and long-lasting policy of the American government, intended to reduce the price of borrowing. This policy has been pursued in the area of house loans regulation as well. All citizens – even those who couldn't have afforded taking loans under normal conditions – were encouraged to borrow, borrow and borrow. This was promoted even through special laws, and the key ones were passed a decade ago. These laws obliged banks to extend certain numbers of "affordable" loans, while those banks that failed were penalised.

The basic principle of this policy would sound socialistic-like. For instance, "A home for each family " – this was declared by recent U.S. presidents. In reality it meant "more money for all." The government went on to pump increasingly more money into the economy, increased their availability and encouraged borrowing. This has created an illusion for many people that they are very rich, which has led them to consume, invest, speculate and continue borrowing abundantly. Investment banks simply couldn't be spectators in this race – the money that was offered almost for free would have been absorbed by others. So the central reason for this crisis was unrestricted money supply by the U.S. central bank and, in part, other central banks. Namely as a result of this purposeful stimulation of house loans, the crisis manifested itself first and most glaringly in the real estate market.

F. von Hayek, who was awarded the Nobel Prize for explaining the theory of business cycles, demonstrated that credit expansion was the central and inevitable cause of business cycles. Credit expansion is carried out through state's deliberate and purposeful interventionist policy – namely political motives keep driving the state (who has a monopoly of money issuance) to throw ever more money into the economy and so "galvanise" it.

But the crisis-plagued U.S. and other countries do not take the opposite course – they go even further: they nationalise banks, they shell out billions from national budgets to salvage their economies by redeeming bad loans and insuring deposits. Perhaps there's been an essential shift which will exert irreversible consequences on the minds, and not just economic ones, of Western countries?

Those moves that are being made today – guaranteeing more deposits, guaranteeing inter-bank borrowing, lowering interest rates, reducing the requirements for banks' liquidity and, finally, nationalising banks – is nothing less but rewarding those entrepreneurs who've made false economic decisions by shifting the entire burden onto the rest of businesses and consumers. It's strange but governments of large Western countries keep repeating the same mistakes that, as I've already mentioned, have given rise to the current crisis. Billions that are being thrown into their economies undermine the market's abilities to depurate from incorrect investments, while businesses are being inhibited to evaluate the actual situation and to take decisions which would correspond to this reality. Steering such a policy which was pursued in the U.S. during the Great Depression means that this crisis will protract, engendering huge economic losses. Sadly, a number of countries have taken up this course – the U.S. whose authorities reacted first and the United Kingdom, Germany, Denmark and Portugal whose governments responded later but more scaringly and blindly following America's lead. Meanwhile, Russia was the first country to implement these measures, which has led her to hopelessly squander billions of dollars without achieving any results.

The panic that forces countries to throw money into the banking sector might be understandable – the collapse of the banking system is what alarms the most. But what are the sources of funding here? The first one is a new issue of money which will again catalyse investments, cranking up the same mechanisms that have triggered the crisis. The second stream of finances is borrowing. This means that money will be sidetracked from other fields with a real economic footing and potential to non-productive areas. Eventually, this will translate into raising taxes.

The crisis has started not today. The crisis has been progressing for quite a while. And since the market was constantly prevented from cleansing itself, we plunged into the crisis deeper than we could. Global economy will not come unharmed after the current situation ends since hyper investments and hyper consumption have reached a sweeping extent. Correspondingly, market correction is and will be large-scale and painful. But the worst thing is that the crisis is being exacerbated and prolonged. It's because countries' leaders are panicking and hurrying to demonstrate they are "doing something" or even worse – "doing everything." But politicians should act otherwise. First, they should limit public finances and government expenditure – to "contract" in line with private businesses. Second, to aid the business by liberalising employment regulation. Firing workers is a complicated task today, although indeed it's vital to cut the number of employees for companies in the current context. This is a sad reality of today. These aspects are especially topical in Lithuania where authorities act in contrast to what is logical: they continue to spend lavishly and plan an even larger budget deficit, without uttering a word about plans to increase the economy's flexibility.

Some increasingly louder voices project that these economic processes are going to markedly change the geopolitical landscape as well. Purportedly this will accelerate the U.S.'s falling from the position of the world's key player. America is a landmark for Lithuania's foreign policy. To which side may the balance of power be swayed, if at all? To Europe? To Asia? What effects will these processes have on Russia and what scenario of development in the neighbouring country should Lithuanian get ready to?

This is far from being the most important issue for ordinary people and businesses. However, it's evident that the U.S.'s and Europe's relative economic role around the globe will decline. The treasuries of Asian countries already now possess amounts of money, tremendous enough to rescue Western economies via such means that are being employed at the moment. The sums, equalling billions that are currently envisaged in rescue plans, can be found in China's stabilisation fund alone. Nonetheless, I don't believe this potential of the Asian markets will be long-term. So Asia will assume a relatively more significant role, but for the time being this doesn't imply the downfall of the West.

Speaking about Russia, it's likely that this crisis is going to harm her the most. The explosion of bubbles in real estate and securities markets in other countries are stunningly large-scale, but falling prices of commodities, including oil, is advantageous. But as for Russia, dropping prices of commodities will be yet another additional colossal blow.

Russian authorities responded to the crisis more swiftly and more fallaciously compared to European countries. Russia's stabilisation fund, accumulated in recent years and mentioned to cheer up its society, was guzzled in five days.

I won't venture a prognosis about how economic crisis will change Russia's political regime. I'm afraid it will get increasingly aggressive and brutal.

Do you think Lithuania's political elite is keeping an adequately close eye on all these processes and perceives their importance?

Can we expect much from our politicians if the political elites of even larger countries don't go into deeper debates over these issues? The only qualitative debate is taking place in the U.S. where a bank redemption plan was rejected once by the House of Representatives. There are other countries as well were politicians haven't start panicking yet. For example, the Czech central bank announced it didn't intend to raise interest rates. Estonia's ruling coalition declares that they wouldn't try to save banks if they fail.

The situation in Lithuania, to speak frankly, is curious. And on top of everything, the Prime Minister has recently announced Lithuania is not going to contemplate any actions itself – rather, it will wait until Europe proposes some measures and then it will simply support them. Some politicians even suggest that our country should step in to rescue the bankrupt Iceland. Or worse, a completely fallacious consensus is being shaped that in the period of a crisis, the economy must be saved via public money, therefore we need to have a larger budget deficit next year.

In Lithuania, the bankruptcy of banks is feared the most. I agree with our authorities' who calm the public that our banks, just like the Scandinavian ones, have been involved in this potentially risky segment of the global market to the less extent compared to others. But banks alone do not represent the entire economy, while their stability depends on all borrowers, not just investments in securities, which has wrecked the big banks in the U.S. and Europe.

The bankruptcy of private companies is the worst thing that may strike the Lithuanian economy. Lithuanian companies are frequently less competitive than their European rivals, so if they don't have the abilities to flexibly accommodate themselves to the deteriorated situation, most of them may fail.

The way out of this situation that I would suggest to Lithuanian politicians is to contract themselves, save, lower taxes and, together with the private business, dive into the cold waters of the self-regulating market. This will help to depurate. This depuration must take place today. Perhaps it's painful, but it's indispensable.

It seems that the forthcoming government in Lithuania will be more unstable than the current one, no matter what ruling coalition is formed. The presidential election is nearing apace. Is there room for hope that politicians will be capable to adopt well-thought-of, rational and strategically justified decisions?

I believe from what I've seen so far is that authorities may start panicking and hurrying to extinguish the fire, which would deepen the crisis. I think that they will continue blaming capitalism and its greediness, at the same time rescuing some of the capitalists whose investments have failed. I believe they will resort to new regulation of financial institutions that will baffle markets' recovery, while the monetary system will remain intact, programmed to undergo crises. I am more pessimistic than optimistic at the moment.

› R. Šimašius in the Prime Minister's counsel on the impact of the financial crisis on Lithuania

> We need to understand that the crisis was spawned not by unregulated capitalism, but by America's misguided monetary policy that constantly and drastically eased the terms for loans and increased money supply, while at the same time consciously creating to consumers and businesses an illusion of seeming wealth.
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> *Remigijus Šimašius, the Lithuanian National Radio*

On 23 September LFMI's President Remigijus Šimašius took part in a counsel organized by Lithuanian Prime Minister Gediminas Kirkilas where a number of Lithuanian economists debated the real causes of the financial crisis in the U.S. and its likely effects on Lithuania.

During the meeting, LFMI's leader explained why and how economic crises occur and how businesses and consumers respond to them.

Mr. Šimašius also spoke about what sound measures governments should undertake during economic crises. According to him, governments should cease monetary expansion and create conditions for a contraction in the business sector. Other moves would be to improve conditions for a country's competeviness and production because only the creation of the real welfare, rather than manipulating money via a monetary policy or public projects, would empower countries to overcome a crisis.

Finally, stressed Mr. Šimašius, governments need to contract themselves – to trim their expenses and lower taxes. Otherwise, the private sector alone will be forced to carry the crisis's entire burden, which might turn out to be too heavy.

ADVANCEMENT OF IDEAS

› LFMI releases a collection of M. N. Rothbard‘s writings

The Lithuanian Free Market Institute continues a series of publications "Readings in Economic Policy" and presents a collection of American economist Murray N. Rothbard's works, *Property and Market Order.* This book is intended to all those interested in economic policy and willing to take a critical look at the established "truths."

While presenting this publication, Lithuanian free-market philosopher Algirdas Degutis, the compiler of *Property and Market Order*, said that although Robert Nozick is considered to be the main counterpoise to Rawls's and other egalitarian theories, he himself writes in his book that it was Rothbard who expounded the libertarian idea to him and removed the scales from his eyes. By writing easily apprehensible texts and being consistent, Rothbard created libertarianism, a systemic doctrine of individual freedom and free markets.

As one Lithuanian reviewer noted, the Lithuanian Free Market Institute has made a bold stroke by presenting to the public – in the midst of the electoral fever - a collection of writings of M. N. Rothbard, a prominent thinker of our times. "Advocates of the free-market ideas should be rejoicing now. And even though at the time of global economic moderation consumers' senses tend to nestle up to conservative values, hopefully, this book will be a good seed into the autumnal soil. When it grows up and matures, it might become a plant that climbs up. In the scale of liberty, of course, " – wrote the reviewer.

The collection contains Rothbard's articles *The Anatomy of the State, Property and Exchange*; *Justice and Property Rights*; *Antimarket Ethics: A Praxeological Critique* and other eminent works.

Rothbard's collection *Property and Market Order* is a third book in LFMI's series on readings in economic policy. Last year the Institute published *A Collection of Economic and Political Essays* by Frederick Bastiat and in 2006 it initiated a publication of Ludwig von Mises' *Economic Policy: Thoughts for Today and Tomorrow*.

> I will not attempt to reason that after reading M. N. Rothbard's book you will penetrate his philosophy and libertarianism to their very fundamentals. It is especially so as this pocket-sized collection of articles is just the tip of the iceberg, hiding the author's wide creative biography. On the other hand, this hard nut is worth to be tried on our teeth, even if afterwards we will need to pay a short visit to our dentist.
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> *Reviewer Tomas Staniulis, Alfa.lt*

› LFMI launches a series of discussions "The economy from unexpected angles"

Starting from autumn 2008, The Lithuanian Free Market Institute offers a unique possibility to its team members and supporters to look at the economy, economic policy and business from various, often unexpected angles. Once a month, the Institute invites its fellows to hear and debate the ideas that are interesting and heighten our curiosity, but which we usually don't have possibilities to hear or read about.

The economy in the eyes on the Church, the free market and the Indian philosophy, the entrepreneur in the Lithuanian literature, the entrepreneur in the Lithuanian folklore, will the free market save the West from its sunset... All these topics will be debated by brilliant speakers, LFMI's fellows. LFMI will invite priests, experts of the Indian tradition, lecturers of literature and other specialists to explain to us what we know little about.

› LFMI offers a week of economic studies for best applicants

> It is no crime to be ignorant of economics, which is, after all, a specialized discipline and one that most people consider to be a 'dismal science.' But it is totally irresponsible to have a loud and vociferous opinion on economic subjects while remaining in this state of ignorance.
>
> *Murray N. Rothbard*

LFMI is organising a week of economic studies for the best applicants, which will be held on November 10-16. Staged for the first time in Lithuania, these courses have been tailored for those individuals who are willing to analyze more thoroughly the causes and the effects of economic policy solutions.

Comprehensive lectures on 14 topics of economic policy will be delivered to senior students of economics or other social and humanitarian sciences, as well to graduate professionals.

These courses will focus predominantly on the Austrian school of economics.

LFMI's President Remigijus Šimašius said that despite its substantial contribution to the science of economics, the Austrian school is scarcely analysed during economic studies in Lithuania and is even marginalised. "We are filling this gap and expanding the activity of economic education, including more exhaustive studies on the Austrian school of economics," – Mr. Šimašius explained the motive of this initiative.

Thirty-five best applicants, selected by the courses' commission, have already been accepted to the courses.

All lectures will be delivered by well-known Lithuanian analysts and internationally acknowledged lecturers who specialise in the Austrian economics. Among them are priest Dr. Kęstutis Kėvalas, who has defended doctoral thesis "Resources of Free Economics and Aims As Per Encyclical "Centisimus Annus"" this year, Dr. Ramūnas Vilpišauskas, Economic Advisor to the President of Lithuania, professor of economics from Nevada University (USA) Hans Hermann Hoppe and Prof. Josef Sima, Head of the Department of Institutional Economy of Economy University of Prague (Czech Republic).

Partners of this project are *Swedbank* and the ISM University of Management and Economics.

› LFMI works on the 2008 parliamentary elections

In the light of the forthcoming parliamentary elections, the Lithuanian Free Market Institute implemented several projects related with the parliamentary elections and the newly elected government in Lithuania.

Given that the bulk of parties run their election campaigns and deliver promises before they draw their election programmes, back in July LFMI prepared and presented to the society a material "What One must Ask a Politician?" It contains five simple questions tailored for voters and politicians themselves that must be asked seeking to "unpack" politicians' proposals. The five questions offered by LFMI are the following: Do we really need it? How much will it cost? Who will pay for it? Whom it will help? Whom it will harm? Currently, LFMI is preparing a similar material for politicians which will provide questions to be asked by politicians themselves.

LFMI also did a joint socio-civil project started in March in cooperation with news agency ELTA, "Parliamentary Elections 2008: what should the New Government Do?" Within its framework, LFMI's policy analysts prepared ten commentaries on the most topical economic policy issues that were released by the news agency. This project aimed at urging voters to pay attention to the forthcoming pre-election promises and to know how to evaluate them rationally. It also provided the "recipes" to the newly elected parliament about what urgent works it should undertake as the first step. LFMI will present all these commentaries as a separate material to the new members of the Lithuanian Parliament.

In September-October the Lithuanian Free Market Institute and the Institute of International Relations and Political Sciences at Vilnius University conducted a joint project on the forthcoming elections in Lithuania, "The Citizens' Choice in 2008." As part of this project, the two organisations analysed the election programmes of 16 parties that took part in the 2008 parliamentary elections. The aim of this project was to offer a consistent approach towards electoral platforms, to stimulate informed public debates and prudent and active involvement in the election process. It also served to help voters to decode those politicians' proposals that were nicely packed but with incompletely displayed, unclear or ambiguous contents. The former projects carried out before parliamentary elections in 1996, 2000 and 2004 confirmed the need of this initiative. The results of this project were presented at a press conference.

This project sparked repercussions in the society and among politicians as well. For instance, the currently leading Social Democratic Party of Lithuania issued a press release to thank the Lithuanian Free Market Institute for a good evaluation of their programme. It said that LFMI's evaluation of Social Democratic Party's programme "proves that social democrats have drawn a truly left-wing, social democratic programme."

The first round of the elections to the Lithuanian Seimas took place on 12 October. Seven parties, the two liberal parties being among them, gained over 5% of the vote, which will guaranty them seats in the parliament. A run-off is to be held on 26 October (in those constituencies were no candidate gained more than 50% of the vote).

› Seminar "Murray N. Rothbard: Without Taboos in Economy, Without Compromises in Ethics"

On 24 September LFMI staged a seminar for young people, "Murray N. Rothbard: Without Taboos in Economy, Without Compromises in Ethics," to present the newly published collection of Rothbard's works *Property and Market Order*. During the event, LFMI also announced and awarded the winners of its writing contest "Liberty Studies" which was devoted to the analysis of Rothbard's works this year.

Marco Luigi Bassani, a professor of the history of political sciences at the University of Milan, was the key speaker of the event. He delivered a presentation "Murray N. Rothbard: Economy and Freedom."

Prof. Marco Luigi Bassani and LFMI's President Remigijus Šimašius during the seminar

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BUSINESS DEREGULATION

› Proposals to increase Lithuania's competitiveness by amending employment regulation

15-07-2008 | In an international conference "Lithuania in the World: Competitive or Outcompeted?" staged by the Lithuanian Free Market Institute and the Lithuanian Development Agency on June 11 Lithuanian and foreign specialists presented their views on the obstacles to Lithuania's competitiveness and ways to increase it. Taking into consideration these remarks, LFMI has formulated and submitted a letter to relevant authorities, urging to consider certain amendments to the Lithuanian Labour Code. LFMI pointed out that Lithuanian and foreign analysts from independent organisations and research centres did not agree with the position of the Lithuanian public authorities. They stressed that employment regulation was complex and rigid, which undermined Lithuania's attractiveness to foreign investments. More to that, employment regulation is stricter and more cumbersome in Lithuania than in other counties whose lead Lithuania is trying to follow, e.g. Denmark or Holland.

The letter stated that seeking to increase Lithuania's competitiveness, it was crucial to create conditions for companies' competitiveness and productivity, more favourable conditions for small and medium-size businesses and to ensure more flexibility needed to adjust to economic moderation. A more flexible regulation of the labour market would mean smaller bureaucracy, which is advantageous to workers and companies alike. More flexible regulation would dwarf incentives to work illegally or without registering the actual time worked.

In line with the letter, LFMI submitted specific proposals on how to streamline the Labour Code seeking to ensure more flexibility in the labour market.

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STATE BURDEN

› LFMI called on parties to include a profit tax reform in their election programmes

29-07-2008 | LFMI has disseminated an analytical material to Lithuanian parties, inviting them to incorporate a shift to direct taxation of dividends (to revoke a corporate profit tax) in their election programmes. This material contains general information on abolishing the profit tax (the flaws of the profit tax, ways of taxing profits, and Lithuania's and other countries' practice in taxing dividends).

LFMI highlighted the heavily criticised consequences of the application of the profit tax. First, the profit tax engenders unjustified taxation of shareholders' income both at the stage of earning and paying dividends. Second, the tax is levied not only on shareholders' income received but also on investments and on part of business expenses. Third, the base of the profit tax is non-objective; its calculation is especially intricate and complicated, regulated by a number of secondary legal acts and clarifications. As a result of these factors, the complexity of profit tax administration is tantamount to VAT administration, although revenues from the profit tax are markedly smaller than those from VAT. EU institutions are nurturing the idea to consolidate the profit tax base across the EU, so depriving member states of their opportunities to compete for businesses and investments. The real way to solve all these problems is to launch an essential profit tax reform by shifting to a single direct taxation of shareholder's income (elimination of the profit tax).

The Institute believes there are two principal reasons why the profit tax should be abolished, while shifting to direct taxation of shareholders' income. These are a positive impact on investments and a reduction of an enormous burden of computation of taxable profit and a shift to objective base of taxation.

The Institute hopes that the upcoming Government will set forth provisions in its programme on repealing double profit taxation, since some parties have included such promises in their election programmes.

> It is easy to be conspicuously 'compassionate' if others are being forced to pay the cost.
>
> *Murray N. Rothbard*

› LFMI opposes plans to extend a maternity (paternity) leave

23-09-2008 | LFMI has analysed draft amendments to the Law on Sickness and Maternity Social Insurance and submitted its comments to the Parliament and Government. These amendments lay down that a maternity (paternity) leave is extended until the child reaches the age of three, dispensing a maternity (paternity) allowance for the third year equalling 50 percent of the compensated salary amount.

The Institute emphasised that if the maternity (paternity) leave was prolonged, this would worsen the attractiveness of women as potential employees, at the same time undercutting their opportunities to find work. More to that, investments in women-employees would decline (trainings, conferences, etc.), these investments would become riskier as they would become frozen if the woman decides to go on a maternity leave.

It is also likely, according to LFMI, that if these changes are implemented, the gap between the level of employment of men and women will widen and the number of social support recipients will go up. In addition, the inefficiency of state social policy will increase, the expenditure of the State Social Insurance Fund will grow and the revenues will decrease.

LFMI called on public authorities not to adopt these amendments, instead regulating the time of work more flexibly, since this would allow women to find part-time jobs or to agree on a convenient working time schedule with their employers.

In 2008, the Law on Sickness and Maternity Social Insurance was amended by extending a maternity (paternity) leave until the child reaches the age of two years (the maternity (paternity) allowance, equalling 100 percent of the compensated salary amount, is dispensed until the child is one year old, while for the rest of the time until the child reaches the age of two years parents receive 85 percent of the compensated salary). As a result, the difference between the average monthly wage of men and women grew almost double over the past two years: in the 2nd quarter of 2006, this difference totalled 190 litas, while in 2008 it already amounted to 364 litas.

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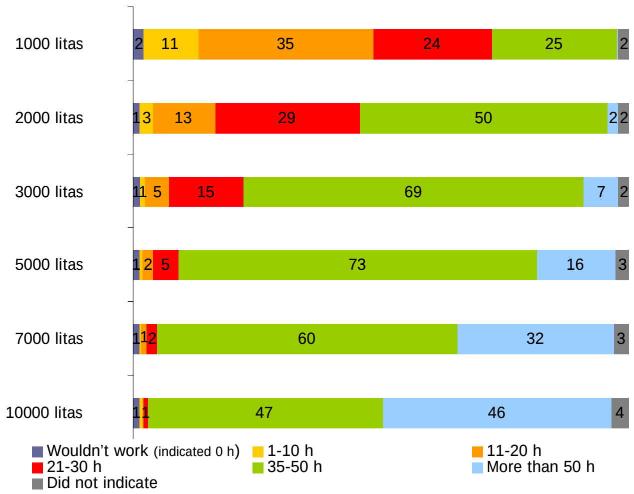
WHAT LITHUANIANS REALLY THINK

The Lithuanian Free Market Institute and a Lithuanian market research company RAIT continue implementing a joint project that aims at ascertaining public attitudes towards various economic issues. A new poll conducted in June 2008 showed that people would work longer hours if they were remunerated accordingly. Other two polls were carried out in September to elicit people's and companies' views on the corporate profit tax. The following presents the results of all these polls.

Lithuanians wouldn't mind to work overtime for a desirable salary

A representative opinion poll conducted in June 2008 was designed to find out how many hours per week Lithuanians would agree to work for a certain salary. The results demonstrate that people would agree to work overtime to earn a desirable amount of earnings, while they would work only about 30 hours per week for the currently paid average monthly earnings.

Question: if you were paid 1,000, 2,000, 3,000, 5,000, 7,000 or 10,000 litas per month "in hands" (after tax), how many hours per week, on average, would you consent to work? (1,000 litas equals 291 euro). (Answers are presented in percent).



The Lithuanian Labour Code sets a regular working week of 40 hours, which clearly doesn't satisfy those people who are willing to earn larger wages and salaries. According to the survey, Lithuanians would agree to work 40 hours per week for a salary, amounting to 3,360 litas per month, but they would work longer hours if the salary was raised. To receive average net monthly earnings, as reported by *Statistics Lithuania* (1,650.6 litas in the 1st quarter of 2008), people would agree to work scarcely more than 30 hours per week. This shows that workers are not willing to work overtime for small, unsatisfying salaries. If people are paid low wages, they wish to work short hours – the smaller the earnings, the meagre the probability they would consent to work extra hours.

LFMI's Senior Policy Analyst Giedrius Kadziauskas says that the results of this poll indicate that Lithuanians know how much they wish to earn and would work overtime to receive this amount of money. The survey also revealed a wide gap between desirable earnings and the real wages and salaries paid.

"Workers earn on average twice less for working in two jobs compared to the amount they indicated they would agree to work for. This discrepancy is rather conspicuous, but it can be explained: while expressing their views about how many hours they would agree to work for certain wages, people tend to reflect their expectations or desires, rather than the real situation in the market. People's opinion reflects the price of the labour force supply, while the ultimate price in the market occurs only after evaluating the demand for labour from the company side," – G. Kadziauskas commented the results of the survey.

He also highlighted that the perception of the payment for overtime work elicited from the survey is an illustration that people don't need to be shielded from overwork as they themselves are able to measure how much an extra hour of their work is worth. Overtime work is only the matter of remuneration: all respondents, including low-income earners, would agree to work overtime, if they were paid properly," – said G. Kadziauskas.

This representative sociological survey was conducted on June 5-16, 2008 using face-to-face interviews. It is an Omnibus poll. 1,043 permanent Lithuanian inhabitants aged 15 to 74 were interviewed. Statistical error does not exceed 3 percent.

A profit-tax reform is awaited both by companies and people

In the light of the ongoing debates over the alternatives of the profit tax application, LFMI and the company *RAIT* did two representative sociological opinion polls of Lithuanian company owners/executive managers and the public at large.

The opinion poll of the general public aimed at ascertaining if people know that the corporate profit tax is included in the price of goods and services they buy. The results of this survey demonstrated that Lithuanians understand that the burden of the profit tax falls on them rather than on companies. More than half (57 percent) of the Lithuanian population, aged 15-74, think that the profit tax is incorporated into the price of goods and services. Thirteen percent of respondents believe that this tax is not included in the price of goods and services. Thirty percent of those polled did not answer the question at all.

As LFMI's Associated Policy Analyst Rūta Vainienė noted, although politicians frequently voice proposals to "make the taxation of companies and individuals uniform," this poll indicates that the majority of the population do not believe in this fallacy.

"A multitude of people in Lithuania understand the law of tax shifting. There is no separate profit tax - the load of all taxes eventually falls onto the purchaser of goods and services. Seeking to reduce the tax burden for each individual, it is not necessary to cut the personal income tax alone. And vice versa, raising the profit tax would mean an increase in the tax burden for individuals," – said R. Vainienė.

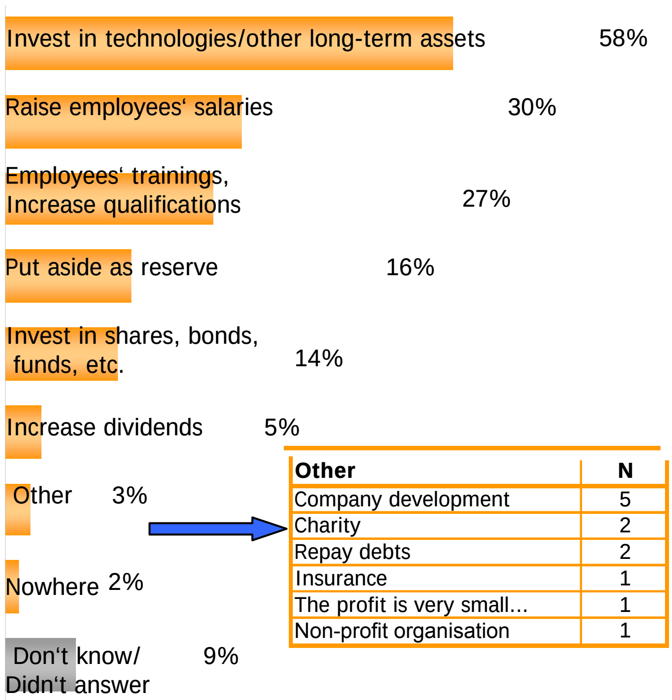
This representative sociological survey was conducted on September 5-12, 2008 using face-to-face interviews. It is an Omnibus poll. 1,025 permanent Lithuanian inhabitants aged 15 to 74 were interviewed. Statistical error does not exceed 3 percent.

Company owners and executive managers were asked at which stage it would be expedient to tax companies' profits. According to the existing rules of corporate profit taxation, companies pay a profit tax on income earned and on profits distributed. Seven percent of respondents supported this model of profit taxation.

The results of the survey clearly indicate that the respondents are in consensus that the existing double taxation of profits should be eliminated, but they don't agree on the direction of the profit tax reform. As mush as 28 percent of those polled reported that neither a profit tax nor a personal income tax should be levied on profits. Twenty-six percent think that profits must be taxed when they are distributed, that is, only dividends. Twenty-five percent were of the opinion that a tax must be imposed only on taxable profits that are calculate based on effective laws at the stage of distribution, while dividends must not be taxed at all.

The survey respondents were asked to imagine a hypothetic situation that the rules of profit taxation have been changed, profits being taxed only once – at the stage of paying out dividends. More than half of Lithuanian companies (58 percent) would use freed funds of the profit tax on investments in technologies or other long-term assets. Even 57 percent of executive managers would allocate additional funds to their employees – for increasing salaries and training. Only five percent of respondents reported they would pay out additional dividends.

Question: Let us suppose that the profit tax has been abolished and the tax is levied only on dividends. Where would you use these extra funds?



LFMI points out that in the period of economic slowdown, lowering taxes becomes crucial. The Institute hopes that the upcoming Government will set forth provisions in its programme on repealing double profit taxation, thus crowning the current active debate on the profit tax reform (some parties have included such promises in their election programmes).

This representative telephone poll of Lithuanian companies has been conducted using a CATI (computer assisted telephone interview) method. The poll was carried out on September 21-30, 2008. 401 company owners/managers or Lithuanian companies were polled. Statistical error does not exceed 4.9%.

ANALYSIS

Parliament's decision to unpeg litas is economically deleterious and must be revoked

LFMI's position on the importance of the exchange rate of the litas to the Lithuanian economy

In summer 2008 the Lithuanian Parliament passed a resolution on urgent measures for curbing price growth and inflation which called on the Lithuanian Government to restore real functions of the Bank of Lithuania so that this institution could implement an active monetary policy. Given that this subsection of the resolution provoked considerable turmoil both among the Lithuanian society and members of the parliament themselves - they claimed they had incorrectly grasped the essence of this provision, LFMI urged the Parliament to reconsider this resolution and submitted its arguments on the importance of the exchange rate of the litas to the Lithuanian economy, highlighting the negative effects that may ensue after scrapping the national currency's peg. According to the Institute, money stability is an essential and prerequisite condition for economic growth, while a possibility to manipulate money triggers, rather than stamps, inflation. LFMI invited the Lithuanian MPs to thoroughly examine LFMI's arguments and to revoke the mentioned subsection of the resolution. The upshot was that the Parliament hastily withdrew this provision of the resolution. Below is LFMI position on plans to unpeg litas.

The Lithuanian Free Market Institute is of the opinion that there is not a single reason why the issue of the exchange rate of the litas should be considered at the moment. LFMI calls on the Lithuanian Parliament to revoke the clause of the adopted resolution on urgent measures for curbing price growth and inflation regarding the implementation of the Bank of Lithuania's active functions and to announce publicly that up until the euro is launched, both the current litas-euro exchange rate and the litas' backing by foreign reserves will be preserved.

Devaluing litas would thwart the country's attempts to curb inflation, causing a currency crisis which would be inevitably accompanied by acute problems in the banking system. This would undercut incentives to save and invest in financial products (insurance, pensions and securities), completely undermining the economic foundations of individuals who receive fixed income (pensioners, teachers, etc.). All this would have negative repercussions for economic development and dwarf partners' confidence, also rendering the implementation of Euro-integration obligations impossible.

Lithuania's national currency, litas, has been pegged to a foreign currency at a fixed exchange rate since 1 April 1994 when the Law on Litas Credibility was adopted. The introduction of the currency board scheme enabled the country to solve its pressing economic problems – curbing inflation, enhancing the confidence in the national currency, stabilising the environment of savings and investments, reducing the price of borrowing, and strengthening the Lithuanian economy. It is reasonable to state that the stability of the Lithuanian national currency has laid the foundations for the economy and welfare in Lithuania to grow. Replacing the anchor currency, the U.S. dollar, with the euro on 2 February 2002 did not blemish the reputation of the litas as a stable currency; the replacement itself went smooth and without panicking, thus demonstrating the credibility, flexibility and sustainability of the currency board system.

Statements that the litas must be unpegged from the euro greet our ears with every stumble of the economy, but the 14-year history of the currency board system - that turned the litas into stable money - hasn't seen such a juicy statement on behalf of the Parliament. The litas, which is strictly tied to the foreign currency, has survived the banking crisis, the Russian crisis and repegging from the U.S. dollar to the euro and has gained people's solid confidence. Is it necessary – by way of curbing inflation - to guillotine the currency board system that has ensured stability to the Lithuanian economy?
Rūta Vainienė, Lrytas.lt

However, notwithstanding the irrefutable merits that the currency board system displayed in strengthening the Lithuanian economy and statehood, ever since its inception, there have been occasional talks that the litas' rate will be changed or that the fixed rate will be scrapped altogether, also eliminating a 100-percent backing of the litas in circulation by foreign reserves or gold. Such talks or politicians' statements have invariably originated from certain interest groups, shifts in political power or were adjusted to (cloaked by) certain economic changes. For instance, the Russian crisis and the planned but failed introduction of the euro also raised doubts on the market as to whether the Lithuanian authorities were determined enough to retain a stable exchange rate of the litas.

Mounting inflation has thwarted plans to launch the euro from 2007, but it has also evoked speculations about the fate of the litas, the Lithuanian people and companies and - to tell it without overstatement – the entire economy in Lithuania. The recent "warnings" that inflation cannot be curbed without depreciating litas causes considerable concerns since they are being voiced by solid experts and politicians. These talks could be ignored, supposing that individuals or institutions propagating such views are insufficiently familiar with the impeccably smooth functioning of the currency board scheme or that they have been provoked or incorrectly interpret the facts.

However, these talks are being spread in a particular economic setting – climbing inflation, projected economic moderation, changes in real estate prices and, in consequence, the expectations of investors who have drawn such loans, the upcoming parliamentary elections, the developments in Estonia and Latvia, and the ECB's infirm position. These factors raise reasonable doubts that populist-minded or interested individuals might start exploiting this topic again, which would be injurious in itself.

LFMI has actively advocated the introduction of the currency board system and repeatedly contends that the currency board system has brought sweeping advantages to the Lithuanian economy, has retained its relevance and importance and remains a vital condition for the country's economy. It is the stability of the national currency that has eliminated the inflation generated by the central bank, letting market-driven processes alone to determine changes in prices. It has also pushed down interest rates, which turned banks' credits into an ordinary phenomenon, rather than an exclusive luxury. More to that, this has build confidence in the litas and laid a strong footing for the litas' value, savings and investments. There is not a single reason why the issue of the litas' rate should be considered at the moment.

It is especially fallacious to state that unpegging or devaluating litas would help solve the current problem – the high level of inflation. Quite the contrary. Devaluating litas (emission of additional litas) would hinder breaking the grip of inflation, instead fuelling uncontrolled rises in prices.

It is also economically ungrounded to say that the devaluation of the litas is inevitable due to the current account deficit or that this move would bolster exports, so increasing Lithuania's competitiveness. A continuing and huge current account deficit may be a signal of a depreciating national currency only if a floating exchange rate is in place. However, under a currency board arrangement, this rule is totally invalid since the currency's stability is predetermined not by foreign currency inflows but, rather, by 100-percent reserves, irrespective of where the foreign currency tends to migrate. Depreciating litas would bring only instantaneous and illusory benefits to exporters, while the damage done by mounting inflation would prove to be long-lasting and real. As a result of the above mentioned causes, if the litas was devalued, Lithuania's competitiveness would be irretrievably impaired as the cornerstone of competitiveness is primarily a strong currency.

Devaluing litas would have short-term advantages for debt-laden profiteers, also those structures that seek to shake the underpinnings of Lithuania's economic stability.

Given that some members of the parliament claim they haven't understood that the adopted resolution urges the government to untie the litas, and that this statement has caused especially big concerns among the people, companies and investors, we call on members of the parliament to renounce the resolution's provision on restoring the Bank of Lithuania's active functions and to announce openly that until the euro is launched, both the current litas-euro exchange rate and the litas backing by foreign reserves will be preserved. We invite politicians to state unambiguously that this issue is neither raised nor considered.

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The following article appeared in Taming Leviathan: Waging the War of Ideas Around the World*, a publication of the Institute of Economic Affairs. In this volume 13 authors from different parts of the world examine how think tanks can influence public policy.*

Elena Leontjeva, the co-founder, ex-President and the Chair of the Board of the Lithuanian Free Market Institute, tells a story about LFMI from its early days and how the Institute developed its acknowledgement and authority in Lithuania's public life.

A Short Story of the Free Market: Between the Two Unions

By Elena Leontjeva

When I was a child, I never saw bubblegum, only a wrapper, which somebody brought to school for our amusement. Yet I learned from an empty wrapper that the bubblegum must exist. In the same way I discovered there must be the market, even though there was no market in my environment. 'Market', the word itself, sounded sinful. No wonder! This was a time when socialism was being 'developed' and embraced as never before. Naturally, we did not know about such things as free choice, supply and demand, bubblegum and bananas. The content of a sweet-smelling bubblegum wrapper was beyond my wildest imagination when I was eleven, but when I was sixteen that all changed. My dream came true and I started working at a newly launched bubblegum production facility, the second one in the USSR. It looked as if the socialist state could catch up with the market.

While working at the conveyor belt, however, I witnessed striking social injustice and economic inconsistency, which led me to the question: what changes must be made to make the system work and prevent people from being pushed to one single solution – stealing from their workplaces? For a while I studied mathematical programming, economics and industrial planning, hoping that this would be the way to improve the system. Unfortunately, my work as a programmer did not make the country any better and made me feel disillusioned. I remember the day back in 1986 when I realised that socialism must be improved by way of market forces and I started to contemplate how exactly the market would alter the system. I was still expecting to reconcile the market with socialism, however, and it took me several years of personal perestroika to comprehend that the market implies private property and that the system will not be saved by increasing the 'independence' and 'self-finance' of state enterprises.

In 1990, Lithuania declared independence and thus broke the Soviet empire. Freedom of speech and movement allowed people like me to bring ideas into action. For five young economists led by Professor Glaveckas, this meant establishing a think tank which we called without compromise the Lithuanian Free Market Institute (LFMI). There was no doubt in our minds that it was time to contribute to building a new order; one based on individual liberty and limited government. Many scholars and professionals joined us, excited by the idea of building a new Lithuania. I dropped out of postgraduate studies without regret and ventured into the newly established institute. We were privileged with only a month or two of academic serenity to sketch out the free market principles before life provided a chance for us to jump into the reform-making process.

A new law on commercial banking came under consideration in parliament, and since we knew that a well-functioning market starts with capital allocation, we outlined a proposal on banking principles in Lithuania. Even though we were young and inexperienced, our proposal competed on an equal footing with the official draft of the central bank and even won the sympathies of the members of the Economic Committee of the parliament.

This was the start of our success, but also of continuous hardship. The central bank became our long-term opponent and made our lives truly difficult. At one point, our one-room office was taken away, but we persevered and continued to contemplate the future of banking while sitting in entrance halls and other unsuitable places. One of these places was a conference hall in the central bank, which we dared to use since it was always empty and had a table and chairs on the stage. Looking back, the situation seems rather ironic: the system attempted to push us out of the arena and, in response, we climbed on to the stage.

The allergic reaction of some statesmen towards us was understandable; we were a new 'beast' in public life: a non-profit private institution which instructed authorities how to run the country. We did not wish to be arrogant, but our mission required us to visualise where and how to move forward, to enlighten people and to steer those in power in the right direction. In addition, we vowed that we would not accept government funds, a principle that we followed strictly. This made the authorities worry: we had a state-level agenda, but no state affiliation. Yet, at that time, private funds were seldom available. As a result, our finances were uncomplicated and recorded in a thin notebook. This notebook did not reflect the most crucial donation: our efforts, which were donated for free to the free market cause. This was the key investment which formed the foundation of the Institute.

Despite all the difficulties that we faced during the early years of our think tank, it was a very precious time. There was no alternative to freedom in people's souls and minds. Free trade and private property had no bona fide alternative. To be able to provide people with bread, not to mention sausages and bananas, former socialist states had no other solution but the free market.

Some countries realised this right away and others not until much later. Lithuania was the first in the former USSR to liberalise prices and started mass privatisation, around the same time as the Czechs. Lithuanians enjoyed the most freedom when the reforms were being commenced. Old socialist rules and regulations did not have moral support among the rulers or the general public.

Almost instantaneously people could trade without restrictions, do business without regulations, cross borders without customs and create wealth without paying excessive tax. This was the time when most of the initial capital in Lithuania was being created and, more importantly, when people were learning principles that they were never taught in their socialist schools. Responding to the needs of the day, we developed the legal framework for, and contributed to the founding of, the first Lithuanian commodities market. This gave people a platform on which to exchange goods at a time when there was a shortage of almost all goods and, more importantly, buyers and sellers did not have a mechanism for interacting with one another.

The next issue that needed addressing emerged from mass privatisation: almost all people became shareholders of former state companies, but they had no rights in the companies and no mechanism for trading their shares. Our response to this problem was to develop a set of legal principles for the capital market and the stock exchange. This not only allowed the trading of shares and bonds on the market, but also made it possible to raise capital and define shareholders' rights. As a result of theses efforts, the first stock exchange in the former USSR was opened in Lithuania in 1993. The development of the Securities and Exchange Commission followed.

In our work to develop a system of institutions, our aim was to provide the impetus for the adoption of a minimum set of rules to protect private property, rather than giving way to interventionist regulations. Beginning in 1993, Western countries and donor institutions began to transfer their 'know-how' to our soil, and while they were often our allies in promoting a reform agenda, at other times we had to fight against their efforts to bring about more intervention and rent-seeking behaviour. It is well known that our region suffered from bank bankruptcies in the mid-nineties. The primary reason was that while donors worked hard to introduce capital adequacy and other sophisticated ratios into the banking system, nobody noticed that there was no proper mortgage system, so the same property could be used as collateral multiple times. I recall many more cases where shallow interventionist regulations preceded indispensable rules.

Reflecting back on those times, I regret that we were not able to address all of the pressing issues of the day, yet I know that we always chose the most important ones that would result in a chain reaction. The most vivid example of this is the introduction of the currency board in Lithuania. When Lithuania was getting ready to replace the Soviet rouble with its national currency, litas, we were promoting the idea that money should be separated from the state, although at that time it didn't sound very attractive.

But when the new currency was introduced and the central bank launched harsh interventions that led to a remarkable appreciation of the young (or new) national currency, the economy was brought to a standstill. We felt the need to explain to people that it was not the market which made the national currency rise, but the central bank, which is a typical central planning authority. We told people there could be no genuine market if currency remained in the hands of central planners. Since many academic economists and public officials were great enthusiasts of the traditional (interventionist) central bank, it was crucial to show people that there might be an alternative. Only 50 years ago Lithuania enjoyed the gold standard and people still had memories of sound litas, so we appealed to people's hearts and minds, explaining the benefits of gold and other sound money. The currency board model was a kind of a modern version of sound and relatively independent money. Explaining to people its essence, which is very simple, and which was called by opponents the 'lavatory principle', was only the first step. Let me give you the basics as well: the central bank can issue currency only in exchange for foreign reserves and gold, which must be kept in its vaults, and must exchange any amount of national currency at the fixed exchange rate and vice versa. This operating principle means that the hands of the central bank are tied – no credit expansion, no interventions, no relevance.

Sure, very few people shared the vision that turning the central bank into a 'lavatory' could save our freedom. Fortunately, among those few was the prime minister. We kept sending numerous policy papers to statesmen, appealing to people through the media and speaking to the business elite and politicians. Despite widespread scepticism and the hardcore opposition of the central bank, the currency board model was introduced on 1 April 1994 through the Litas Credibility Law. This law tied the national currency, the litas, to the US dollar at a fixed exchange rate and required that all money in circulation be fully backed by gold and foreign reserves. Despite critics' prophesies that the currency board would not survive and that it was on the brink of crashing, thirteen years have passed and the system is still alive.

> Every skill beyond our initial mission has been developed in response to daily demands, and we have learned to be inventive and very efficient. Our scope and our output always looked suspiciously big vis-à-vis our budget, and I have heard people say that we must employ at least one hundred people. We have become an incubator for countless statesmen and stateswomen, and LFMI staff have been highly desired, and from time to time recruited, as ministers, deputy ministers, state councillors, central bank board members and advisers to the president and prime minister.
>
> *Elena Leontjeva*

It has survived many crises as well as official political plans to dismantle it. Thanks to the currency board, people's money was never devalued or used to cover bank losses, treasury shortfalls or to finance the grand plans of statesmen. For thirteen years people were protected from central bank interventions and currency fluctuations caused by the central planning authority. Needless to say, the currency board broke down artificial barriers that separated Lithuania from global money and capital markets, and interest rates decreased at a rapid rate that even we found surprising.

After the implementation of the Litas Credibility Law, there was no shortage of local and foreign critics who claimed that a developing economy would not survive without some currency devaluations and that such devaluations would help to promote exports. As the US dollar appreciated (yes, there were such times!) many began panicking and worrying that the devaluation of the litas was imminent. The interest groups lobbying for devaluation were so powerful that it is a miracle that the devaluation never actually happened. These groups were happy to support the euro as the new peg instead of the US dollar, since the euro at that time was steadily weakening. In 2002, this was done as part of national efforts to join the European Union. Unbelievably, from that time onwards the euro started to appreciate! It would be difficult for graph-lovers to counter my guess that the currency which Lithuania chooses as an anchor is always strengthening and that this fact alone is responsible for developments on the Forex market. On a more serious note, our history is proof to evaluation devotees that it is still possible to prosper economically and to have fast-growing exports without this economic 'remedy'.

Since the monetary system was now in order, we turned to other areas of importance. At this time, there was a lot of concern about the country's competitiveness, so we provided comprehensive policy proposals and suggested that officials should focus on addressing the burden of the state: taxation, expenditure and regulation. Our fight on this front has been quite productive: personal income tax was set at a flat rate and remains flat despite many attempts to implement progressive rates. The property tax for individuals that has been on the government agenda for about a decade has never been introduced (except recently for commercial property). The discussions on the corporate profit tax have been varied. At one point, the idea of abolishing the corporate tax became so popular that it was included in the electoral programmes of two competing parties. Reinvested profits have not been taxed, which has helped to boost private sector development.

Unfortunately, owing to harmonisation pressure from the European Union, the Lithuanian government did not dare abolish the corporate profit tax and even returned to the old practice of taxing all profits by a universal tariff, which is currently at 15 per cent.

Our efforts to retreat from the pay-as-you-go social insurance system have been partially successful – the transition is et in motion and private pension funds have already become common. Needless to say, more radical steps need to be taken. Working at a think tank requires a lot of patience; there were times back in the 1990s when proposing the introduction of private pension insurance provoked harsh criticism and disbelief that it could ever be implemented. My highly esteemed Chilean friend, José Piñera, said that some people believe that a private pension system succeeded in Chile only because it is a very long and narrow country. If, in less than a decade, private pensions were successfully introduced in petite and heart-shaped Lithuania, tell me, what else is impossible?

What is noteworthy about LFMI is that life gradually required us to engage in an exceedingly wide variety of topics. How can one work on budget issues and not touch upon agriculture? How do you address agriculture and not tackle the most interventionist case: white sugar? These questions led us to get involved in almost every topic associated with economic and social policy. These topics included pensions, social redistribution and welfare, the functions of government and strategic planning, as well as a nationwide initiative on reducing the size of the state, which came to be known as 'sunset'. We launched an assault on business over-regulation, known as 'sunrise', and engaged in the topics of competition policy, market entry and licensing. We introduced the concepts of education reform and vouchers and put forward the idea of the private sector becoming involved in health insurance and provision. The Institute developed solutions for fighting corruption and engaged in issues related to public administration, transportation, the energy sector and the knowledge economy. This is in addition to our own field: NGO regulations, philanthropy and the principles and procedures of law-making.

Although such wide-ranging engagement is common sense and frequently leads to good luck, it is tiring and consuming. People expect us to act on any issue that becomes hot in the public agenda. Journalists call us on matters that go far beyond our expertise.

LFMI is an interesting case since it is a truly genuine domestic initiative which, in the early years, had no helping hand from abroad and almost no access to foreign know-how. It was not until after 1993 that we developed relationships with foreign partners.

In addition, being one of the first think tanks in Lithuania also meant that there was no history of non-governmental organisations in the country or a tradition of private funding to support such initiatives, so we were leaders in defining what it meant to be a think tank. We were also pioneers in conducting independent research and advocacy, educating the public, engaging in nonpartisan policy efforts and actively fund-raising for our activities.

Every skill beyond our initial mission has been developed in response to daily demands, and we have learned to be inventive and very efficient. Our scope and our output always looked suspiciously big vis-à-vis our budget, and I have heard people say that we must employ at least one hundred people. We have become an incubator for countless statesmen and stateswomen, and LFMI staff have been highly desired, and from time to time recruited, as ministers, deputy ministers, state councillors, central bank board members and advisers to the president and prime minister.

Early members of the Institute currently hold top positions within private industry as well as finance and public administration. LFMI fellows teach at universities and publish widely in the press. Many of them become 'celebrities', since they frequently appear on television and radio.

It is not yet the right time to rest on laurels, however. Our homeland today is the European Union, and the many similarities between the EU and the Soviet Union make me worry. Lithuania's accession to the EU and the transfer of the ideas of the welfare state from the West pushed us off the free market road on to what must be a 'road to serfdom'. The ideological climate in Lithuania is deteriorating. After years of confidence in spontaneous order, many people started to presume that changes in the market could be foreseen and that instead of waiting until the market brought desired results, authorities could intervene and 'take care' of the changes. The massive transfer of EU subsidies makes our people believe that the 'centre', whatever that is, knows better about where to invest and whom to favour. The economy is being damaged by enormous central support and harmonisation, and it is increasingly difficult to find a genuine market around. All of this is a great misfortune, but we know from our socialist past that bad times are never for ever.

I will admit that it is not easy to address the infinite policy matters and countless institutions of the EU. We feel obliged to speak to people, however, about the vicious omnipotence of the Union and the principles that would make the EU downsize to a sound level. Dealing with this matter from just a utilitarian point of view is fruitless. We need to begin talking to people about faith and the moral foundations of liberty. If people are not ready to accept the spontaneous way of life, then the prospects of freedom are dim. Without a deep acceptance of spontaneity, people will always seek to set up institutions that attempt to provide certainty, which will most likely be institutions of serfdom.

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FROM LFMI'S BLOG

Giedrius Kadziauskas: Someone's got guts. Why not us?

24-09-2008 | It was a pleasant surprise last week when Estonia's Ministry of Economic Affairs and Communications announced that seeking to save budget revenues, the Ministry was preparing to fire 108 employees from the entire sector it controlled. Twelve workers from the Ministry itself had already been discharged.

Meanwhile, the Lithuanian Government is considering a proposal to increase the number of state officials by 350. Ministries deal with an increased need to have more positions by requesting – it's not their business to mind the economic setting and the results of budget collection. They request and then wait to see what will happen. And they plan what to do next when they are granted those extra positions.

Estonia's Economic Ministry perhaps has already visualised a plan on how it will perform its functions – perhaps it will increase its employees' productivity or perhaps it will scrap part of its functions altogether. In both cases the tax payer will benefit.

How is it that Estonians are so courageous? Even if this is populism, which, according to the definition, is directed towards the needs of the public at large, it's pleasant that the Estonian population wishes such changes.

Which of the Lithuanian ministerial leaders would resolve to decrease his soldiery, the size of which reflects the abundance of stars on the shoulder-strap of the general himself? This kind of statement would be condemned by party fellows as the least, since a contracting ministry becomes less influential from a political standpoint.

The Czechs, our other competitors – for attention, investments and a better life – have reported that during the coming six months, when they take the chair of the Council of the European Union, they will seek to achieve that decreasingly fewer legal acts are adopted, while unnecessary ones are discarded. When experienced Western countries are piloting through draft directives, the Czechs slap down their own accent – less is more. Via the Better Regulation Programme, the European Commission promotes the elimination of redundant legal acts or even withdraws already submitted draft directives. However, it's not enough to talk prettily when the other hand constantly tables regulatory initiatives, such as the recent one on capping sms roaming prices.

There is a lack of courage in Lithuania. After meeting with the President, the Finance Minister promised to trim budget expenditure on bureaucracy by renouncing pencils and 13th salaries and bonuses. Well, it's a bold move of the finance minister whose pocket will have a half-billion-litas hole by the end of the year.

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If you don't create a free market, a black market will emerge

The founders of LFMI are – Prof. Kęstutis Glaveckas, Nijolė Žambaitė, Dainius Pupkevičius, Petras Auštrevičius, Elena Leontjeva and Darius Mockus.

LFMI pursues its mission by conducting research on key economic policy issues, developing conceptual reform packages, submitting policy recommendations at the legislative and executive levels, drafting and evaluating legislation, and launching public campaigns. LFMI's activities also include sociological surveys, publications, conferences, workshops, and lectures.

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